

292643

Wessinger-Hill, JoAnne

From: Wessinger-Hill, JoAnne
Sent: Wednesday, July 8, 2020 2:32 PM
To: Bruce.Barkley@piedmontng.com; Nelson, Jeff; Dover, Becky; Grube-Lybarker, Carri; jjeffries@mcguirewoods.com; Hammonds, Lessie; mmcgrath@mcguirewoods.com; rmcpherson@mcguirewoods.com; Hall, Roger
Cc: Wessinger-Hill, JoAnne; Erskine, Randy
Subject: DN 2020-4-G
Attachments: Virtual Hearing Information Form 2020-4-G.(PNG and ORS edits) (7.7.20).docx; Sample Transcript.pdf; Sample Transcript No. 2.pdf; Sample Testimony Corrections.pdf; Errata Sheet Sample.pdf

Dear Parties:

In follow up to the Virtual Test Run conducted on Tuesday, July 7, 2020, please check your email for an invitation to participate tomorrow via WebEx (for attorneys) and/or Segra or Skype for any and all witnesses per Randy Erskine's instructions from yesterday (which required some registration in advance of the hearing even though that was not necessary for testing purposes). A copy of the most recent Virtual Hearing Form is attached. There have been no changes since Tuesday, July 7th. Mr. Erskine was inquiring on the status of the "Skype Account Addresses" for the two ORS witnesses this morning. The ORS response regarding that request was sent to him; however, ORS is asked to directly contact Mr. Erskine about skype addresses.

Attorneys you are responsible for presenting your case and your witnesses, which includes reminding each witness to close their "video camera" on their computer screen once they are advised to step down from the witness stand by the Chairman during the hearing once their testimony and any question is complete.

Attorneys are asked to waive their hand or a piece of paper when objecting or seeking to interject comments during the course of the virtual hearing proceeding so that the interjecting attorney is quickly seen by the Chairman, presiding officer, and Commissioners on screen. If you are called upon by the Chairman to address or comment, this is not necessary. It is necessary when you want to be called upon by the Chairman to comment, object, or otherwise which you would normally otherwise do in physical person by standing up or speaking up in the hearing room to get the attention of the Chairman or presiding officer.

There were questions concerning the order of the hearing. It will be conducted just as if the parties were physically in person in the Commission's hearing room. I have attached a few examples of the typical process - one handling corrections to pre-filed testimony and another of a virtual hearing witness process. This is the general procedure which is also outlined below (but subject to change and adjust as needed by the Commission during the course of the hearing to provide due process and develop the underlying record for the Commission to base any decision):

- (1) **Gather prior to the hearing (at 9:00 a.m. virtually) ready with all witnesses to present case when Hearing called to order by the Chairman.** This means that all parties and their witnesses must virtually appear on their respective computers/telephones at 9:00 a.m. Mr. Erskine will have already sent an email or otherwise communicated with you. If he has not or you have not received any email since the Test Run on July 7th was concluded yesterday, please contact him and check your spam. Mr. Erskine can be reached at 803-896-5100 or 803-896-5104 and his email is Randy.Erskine@psc.sc.gov.
- (2) **Advise the Staff Attorney (Mrs. Hill) of any preliminary matters.** Currently, the only preliminary matters discussed with all on July 7th were (1) the Settlement Agreement; and (2) non-substantive corrections to pre-filed testimony. Any changes or corrections need to be provided in writing prior to the hearing. You can submit your errata sheets or corrections by pre-filing them prior to the hearing and by providing a courtesy copy to all parties. Any changes or corrections should have been discussed or examined by the opposing party(s) prior to submission. Please advise of any consent or disagreement/objection to correction. Any corrections or errata sheets to pre-filed testimony must be filed no later than the date of the hearing; however, they can be filed in advance and sooner is appreciated so that everyone will have physical copy available. Also, the parties have agreed to submit a proposed order no later than Thursday, July 16, 2020 (close of business). It can be a joint submission on behalf of Piedmont and the ORS or individual orders can be proposed by each party. Advise of witness order.
- (3) **Once the hearing is called to order at 10:00 a.m. by the Chairman of the Commission, this is the following general order:**

- a. Call to Order
- b. Reading of the Docket
- c. Roll call of the Commissioners
- d. Appearances (counsel introductions and party's represented)
- e. Preliminary matters
 - i. Piedmont and/or ORS advise of settlement; outline settlement terms/details; move for Settlement Agreement to be placed into the Record as Hearing Exhibit No. 1.
 - ii. Comments from other party
 - iii. Statement regarding corrections to testimony; exchanged between parties and the corrections will be addressed during the testimony of the witness (see sample transcript showing how such is normally handled)
- f. Petitioner/Company calls first witness (see attached samples of transcripts) and witness will be sworn (the Commission will be able to clearly see the witness)
 - i. One witness at a time (computer video camera must be on). All other witnesses must be ready and on standby to be called and ready to "cut on" or open computer video camera (buttons at bottom screen of computer).
 - ii. Upon conclusion of questions, corrections, and introduction of exhibits by company, then cross examination by other party or commission (note: settlement agreement stipulates no cross examination by opposing party; thus, witness available for cross-examination or questioning from commissioners).
 - iii. Redirect (if any)
 - iv. Re-cross (if any re-direct)
 - v. Witness "steps down from witness stand" or is released and shall cut off computer video camera.
 - vi. NEXT WITNESS CALLED AND REPEAT ITEMS i.-v. ABOVE UNTIL ALL WITNESSES HEARD AND PARTY PRESENTS/CONCLUDES CASE. IF THERE IS ANY SETTLEMENT TESTIMONY, YOU WILL PRESENT THAT IN YOUR CASE FOR CONSIDERATION BY THE COMMISSION.
- g. ORS calls first witness (see attached samples of transcripts) and witness will be sworn (the Commission will be able to clearly see the witness)
 - i. One witness at a time (computer video camera must be on). All other witnesses must be ready and on standby to be called and

- ready to “cut on” or open computer video camera (buttons at bottom screen of computer).
- ii. Upon conclusion of questions, corrections, and introduction of any exhibits by ORS, then cross examination by other party or commission (note: settlement agreement stipulates no cross examination by opposing party; thus, witness available for cross-examination or questioning from commissioners).
 - iii. Redirect (if any)
 - iv. Re-cross (if any re-direct)
 - v. Witness “steps down from witness stand” or is released and shall cut off computer video camera.
 - vi. NEXT WITNESS CALLED AND REPEAT ITEMS i.-v. ABOVE UNTIL ALL WITNESSES HEARD AND PARTY PRESENTS/CONCLUDES CASE. IF THERE IS ANY SETTLEMENT TESTIMONY, YOU WILL PRESENT THAT IN YOUR CASE FOR CONSIDERATION BY THE COMMISSION.
 - h. Closing Remarks, including any evidentiary matters, motions, confirmation of exhibits and numbering, proposed orders due date; and other matters.

(4) Conclusion of Virtual Hearing

I hope that this information is helpful to you. In addition to the hearing process samples, I have also attached a sample of an errata sheet or corrections in testimony which was filed recently in other dockets. You can find other examples in the Commission’s DMS. You do not need to re-file the entire pre-filed testimony, but only the pages containing clearly marked corrections or errata sheet(s) so that it is clear as to what changes are being made and proposed in the pre-filed testimony.

With kind regard, I am

Jo Anne Wessinger Hill

C. Jo Anne Wessinger Hill, Esq.
Legal Counsel to the Commission
Public Service Commission
 State of South Carolina
 101 Executive Center Drive, Suite 100
 Columbia, SC 29210
www.psc.sc.gov
 Email: JoAnne.Hill@psc.sc.gov

803-896-5100 (main) | 803-896-5188 (f) | JoAnne.Hill@psc.sc.gov

The information contained in this e-mail message is public and will be filed in the Docketing Management System (DMS) for the corresponding docketed matter. Any responsive e-mail message by you should also be filed by you in the DMS for this matter. **If the reader of this message does not want certain information, which is meant to be discussed only between the parties and not Public Service Commission of South Carolina (Commission) staff, please do not use "reply all" to this message.** Any e-mail message involving the Commission or Commission staff is also subject to the provisions of Commission Order No. 2019-748 in Docket No. 2019-329-A and shall be published in the docket for this matter. If you have received this communication in error, please immediately notify us by telephone at (803) 896-5100.

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14 MR. ELLERBE: I call Dylan D'Ascendis and John
15 Spanos, please. Next panel.

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17 (Witnesses affirmed)

18 THEREUPON came,

19 DYLAN W. D'ASCENDIS,

20 JOHN J. SPANOS,

21 called as witnesses, who, having been first duly

22 affirmed, were examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. ELLERBE:

25 Q Mr. Spanos, we'll start with you. Would you state

1 your name for the record, please?

2 A (SPANOS) John J. Spanos.

3 Q Spanos, I apologize.

4 A (SPANOS) Yes.

5 Q Should've known better. And by whom are you

6 employed and in what capacity, sir?

7 A (SPANOS) I'm employed by Gannett Fleming Valuation

8 and Rate Consultants, LLC, and I am the President.

9 Q Okay. And did you cause to be prepared direct

10 testimony that was prefiled in this docket

11 consisting of ten pages?

12 A (SPANOS) Yes. I did.

13 Q If I were to ask you the questions contained in

14 your direct testimony today, would your answers be

15 the same?

16 A (SPANOS) Yes. They would.

17 Q And did you have a Appendix A attached to your

18 direct testimony?

19 A (SPANOS) Yes. I did.

20 Q And did you also have Exhibits 1 and 2 attached to

21 your direct testimony?

22 A (SPANOS) Yes. I did.

23 MR. ELLERBE: Mr. Chairman, we'd ask that Mr.

24 Spanos' direct testimony be copied in the

25 record as if given from the stand and his

1 Attachment A and two exhibits be entered into
2 the record as the next hearing exhibit.

3 CHAIRMAN RANDALL: Okay. Mr. Spanos' direct
4 testimony will be entered into the record as
5 though given orally from the stand. His
6 Appendix A and Exhibits 1 and 2 will be
7 entered as Composite Exhibit Number 15.

8 (WHEREUPON, Hearing Exhibit 15 was
9 marked and received in evidence.)

10 Q And, Mr. Spanos, did you cause to be prepared 39
11 pages of rebuttal testimony that was prefiled in
12 this docket?

13 A (SPANOS) Yes. I did.

14 Q Do you have a correction to that testimony?

15 A (SPANOS) I do have one, yes.

16 Q I see a little orange flag on there. Would you --
17 would you tell us what the correction is?

18 A (SPANOS) Yes. On Page 35, Line 3, the number "15"
19 should be "25."

20 Q With that correction that you just gave us, if I
21 were to ask you the questions contained in your
22 rebuttal testimony today, would your answers be the
23 same?

24 A (SPANOS) Yes. They would.

25 Q And were -- am I correct, there were no exhibits to

1 that rebuttal testimony?

2 A (SPANOS) That's correct.

3 MR. ELLERBE: Mr. Chairman, we'd ask that
4 Mr. Spanos' rebuttal testimony be copied into
5 the record as if given orally from the stand.

6 CHAIRMAN RANDALL: Mr. Spanos' prefiled
7 rebuttal testimony as corrected will be
8 entered into the record as though given orally
9 from the stand.

10 Q And, Mr. Spanos, would you --

11 INTERIM VICE CHAIRMAN BELSER: Mr. Chairman,
12 could I ask that that correction be repeated?
13 I just found the page. I'm sorry.

14 MR. ELLERBE: No problem. Page 35 of the
15 rebuttal, Line 3.

16 WITNESS SPANOS: Yes. And the second word
17 there is the number "15"; that should be
18 changed to "25."

19 INTERIM VICE CHAIRMAN BELSER: Thank you.

20 Q Would you summarize your testimony, Mr. Spanos?

21 A (SPANOS) Yes.

22 My direct testimony: The purpose of my
23 testimony is to set forth the results of my review
24 and analyses for the plant in service of Blue
25 Granite Water Company, which was conducted in the

1 process of preparing depreciation studies of the
2 company's water and wastewater plant assets as of
3 December 31, 2018. Depreciation, as applied to
4 depreciable public utility plant, means the loss in
5 service value not restored by current maintenance,
6 incurred in connection with the consumption or
7 prospective retirement of utility plant in the
8 course of service from causes which are known to be
9 in current operation. Depreciation rates are
10 affected by service life and net salvage
11 parameters. These parameters are determined based
12 on a combined statistical analysis and informed
13 judgment of each asset class.

14 In the studies that I conducted and that are
15 the basis of my testimony, I used the straight line
16 remaining life method of depreciation, with the
17 average service life procedure to develop
18 recommended depreciation accrual rates. The total
19 annual depreciation is based on a system of
20 depreciation accounting which aims to distribute
21 the cost of fixed capital assets over the estimated
22 useful life of the unit or group of assets in a
23 systematic and rational manner.

24 The determination of annual depreciation
25 accrual rates consists of two phases. In the first

1 phase, service life and net salvage characteristics
2 are estimated for each depreciable group; that is,
3 each plant account or subaccount identified as
4 having similar characteristics. In the second
5 phase, the annual depreciation accrual rates are
6 calculated based on the service life and net
7 salvage estimates determined in the first phase.

8 The service life study consisted of compiling
9 historical data from records related to the
10 company's plant; analyzing these data to obtain
11 historical trends of survivor characteristics;
12 obtaining supplemental information from management
13 and operating personnel concerning the company's
14 practices and plans as they relate to plant
15 operations; and interpreting the above data to form
16 judgments of average service life characteristics.
17 The net salvage characteristics were determined
18 based on informed judgment with regards to the
19 water and wastewater industry and plans of the
20 company.

21 I used the retirement rate method to analyze
22 this service life data. That method is the most
23 appropriate when aged retirement data are
24 available, because it develops the average rates of
25 retirement actually experienced during the period

1 of study. Other methods of life analysis infer the
2 rates of retirement based on the selected type
3 survivor curve.

4 My depreciation studies indicate that the
5 composite rate for water assets is 4.06 percent and
6 the composite rate for wastewater assets is 3.32
7 percent. In my opinion, the proposed depreciation
8 rates resulting from the completed depreciation
9 studies are reasonable and appropriate because they
10 incorporate the most appropriate service life and
11 net salvage parameters currently anticipated for
12 each of the company's property group investments
13 over their average remaining lives. The annual
14 depreciation accrual rates calculated as of
15 December 31, 2018, can reasonably be applied to the
16 total balance including net plant additions during
17 the next several years.

18 Rebuttal testimony: My rebuttal testimony
19 responds to the depreciation-related testimony of
20 David Garrett on behalf of the South Carolina
21 Office of Regulatory Staff. ORS Witness Garrett
22 proposes a fairly significant change in
23 depreciation expense compared to the company's
24 depreciation studies, due in large part to the
25 change in service lives he is proposing. Another

1 factor contributing to the decreased expense
2 proposed by Mr. Garrett is that he changes the
3 company's recommended net salvage percentages.

4 A large portion of Mr. Garrett's reductions is
5 due to his proposed longer service lives for both
6 water and wastewater plant accounts. Rather than
7 making appropriate determinations and judgments as
8 to which data points should be emphasized,
9 Mr. Garrett's proposed service life estimates are
10 determined using life analysis that is based
11 primarily on mathematical best-fit curves.

12 Contrary to this mathematical approach, service
13 life estimates necessarily involve a subjective
14 component that utilizes expert judgment. Regarding
15 Mr. Garrett's net salvage estimates for this case
16 and his claim that the company proposed estimates
17 are excessive, he supported as negative or more
18 negative net salvage estimates in a recent case for
19 a majority of the accounts for which he is
20 proposing net salvage changes in this case.

21 The depreciation rates proposed in my
22 depreciation studies are reasonable and generally
23 utilize less negative net salvage percentages than
24 those used by most water companies. Additionally,
25 the depreciation rates were developed using a

1 consistent, systematic, and rational approach for
2 estimating both service lives and net salvage. In
3 contrast, Mr. Garrett's approach to selecting
4 survivor curves is inconsistent and appears to be
5 results-based. A highly regarded depreciation text
6 written by Wolf and Fitch states that "The results
7 of mathematical curve fitting serve a guide for the
8 analyst and speed the visual fitting process. But
9 the results of the mathematical fitting should be
10 checked visually, and the final determination of
11 the best fit be made by the analyst." However, for
12 a majority of the accounts for which Mr. Garrett
13 proposes a different survivor curve, his reasons
14 are purely based on a mathematical approach and
15 does not consider visual curve fitting in his
16 recommendation.

17 Based on his testimony, Mr. Garrett does not
18 disagree with the current, 66.67 years is a longer
19 composite average service life than is to be
20 expected from both water and wastewater plant
21 accounts given that he has only proposed a longer
22 life than 66.67 for two accounts in his testimony.
23 Many accounts have estimated average service lives
24 that are significantly shorter than the 66.67
25 average service life that the current composite

1 depreciation rate is based. Therefore, a higher
2 composite depreciation rate is supported by all
3 parties.

4 Finally, Mr. Garrett does not disagree that
5 there should be a net salvage component to
6 depreciation rates, as it is expected that there
7 will be costs associated with removing utility
8 assets from service. However, Mr. Garrett
9 arbitrarily reduced the net salvage component for
10 some accounts. When a negative net salvage
11 component is added to the depreciation rates, it
12 will increase the depreciation rates even further
13 than the updated service life estimates. By
14 definition, the net salvage component is part of
15 the recovery of the full service value of an asset.
16 These factors further support the reasonableness of
17 the depreciation rates used by Blue Granite.

18 This concludes my testimony summary.

19 Q Thank you, sir.

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23 (PURSUANT TO PREVIOUS INSTRUCTION,

24 THE PREFILED DIRECT TESTIMONY OF

25 JOHN J. SPANOS FOLLOWS.)

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INTERIM VICE CHAIR BELSER: Thank you
Mr. Wellborn, would you call your first witness,
please.

MR. WELLBORN_[via audio/videoconference]: Happy to, Madam

Chairman. Thank you. The company would first call Mr. Kevin Houston to the stand.

INTERIM VICE CHAIR BELSER: Where's Mr. Houston?
I'm sorry, I'm —

MR. WELLBORN_[via audio/videoconference]: Is Mr. Houston —

INTERIM VICE CHAIR BELSER: — looking —

MR. WELLBORN_[via audio/videoconference]: not here?

INTERIM VICE CHAIR BELSER: When you see me looking around, I've got a tv screen up here to my right and I've got a large screen over here to my left, so, it's just where I can see the person better as to where I'm looking, so, Mr. Houston —

MR. HOUSTON_[via audio/videoconference]: Can you see me, Madam Chairman?

INTERIM VICE CHAIR BELSER: There, I see you now. Mr. Houston, would you please raise your right hand to be sworn by the court reporter.

MR. HOUSTON_[via audio/videoconference]: [Indicating.]

[Witness affirmed]

INTERIM VICE CHAIR BELSER: Mr. Wellborn, please present your witness.

THEREUPON came,

K E V I N Y . H O U S T O N ,
called via audio/videoconference as a witness on behalf of Duke Energy Progress, who, having been first duly affirmed, was

1 examined and testified as follows:

2 **DIRECT EXAMINATION**

3 **BY MR. WELLBORN**_[via audio/videoconference]:

4 **Q** Good morning, Mr. Houston. Would you please state your
5 name for the record?

6 **A** Kevin Houston.

7 **Q** And by whom are you employed and in what capacity?

8 **A** I'm employed by Duke Energy in the capacity as a manager
9 of the Fuel Supply and Storage groups.

10 **Q** And did you prepare or cause to be prepared eight pages of
11 amended direct testimony that was prefiled with the
12 Commission in this proceeding?

13 **A** I did.

14 **Q** If I asked you the same questions this morning that were
15 asked in your prefiled amended direct testimony, would
16 your answers be the same?

17 **A** They would.

18 **MR. WELLBORN**_[via audio/videoconference]: Madam Chairman, I
19 would ask that Mr. Houston's prefiled amended direct
20 testimony be entered into the record as if given
21 orally from the stand.

22 **INTERIM VICE CHAIR BELSER**: Mr. Houston's
23 prefiled direct will be entered into the record as if
24 given orally from the stand.

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1 BY MR. WELLBORN_[via audio/videoconference]:

2 Q Mr. Houston, did you also prepare or cause to be prepared
3 two exhibits that were attached to your prefiled amended
4 direct testimony?

5 A I did.

6 Q Do you have any changes to those exhibits at this time?

7 A No, I don't.

8 MR. WELLBORN_[via audio/videoconference]: Madam Chairman, I
9 would ask that Mr. Houston's two prefiled exhibits be
10 entered into the record as the first composite
11 hearing exhibit.

12 INTERIM VICE CHAIR BELSER: Thank you, Mr.
13 Wellborn. And I just want to be clear that – is not
14 one of those a revised exhibit or amended exhibit?
15 Or was that just the testimony?

16 MR. WELLBORN_[via audio/videoconference]: I thought it was
17 just the testimony, but let me double check that
18 [indicating].

19 INTERIM VICE CHAIR BELSER: Okay, I think I'm –
20 I'm looking at my – I've got my cheat sheet and I'm
21 looking at it wrong; it's just the direct.

22 Mr. Houston's two exhibits, which are attached
23 to his revised or amended direct testimony, will be
24 marked as Hearing Exhibit No. 1 and entered into the
25 record of this case.

1 [WHEREUPON, Hearing Exhibit No. 1 was
2 marked and received in evidence.]

3 MR. WELLBORN[via audio/videoconference]: Thank you, Madam
4 Chairman.

5 BY MR. WELLBORN[via audio/videoconference]:

6 Q Mr. Houston, would you please provide a summary of your
7 testimony at this time?

8 A I will.

9 The purpose of my testimony is to provide information
10 regarding Duke Energy Progress's nuclear fuel purchasing
11 practices; provide costs for the March 1, 2019, through
12 February 29, 2020, review period; and describe changes for
13 the July 1, 2020, through June 30, 2021, billing period.

14 Duke Energy Progress's nuclear fuel procurement
15 practices involve computing near- and long-term
16 consumption forecasts, establishing nuclear system
17 inventory levels, projecting required annual fuel
18 purchases, requesting proposals from qualified suppliers,
19 negotiating a portfolio of long-term contracts from
20 diverse sources of supply, and monitoring deliveries
21 against contract commitments. Consistent with industry
22 practices, long-term contracts are used extensively to
23 cover forward requirements and reduce exposure to possible
24 supply disruptions from any single source of supply.

25 Duke Energy Progress's portfolio of diversified

1 contract pricing yielded an average cost of \$47.93 per
2 pound for uranium concentrates during the review period,
3 representing an increase of 16 percent per pound from the
4 prior review period. The average unit cost of Duke Energy
5 Progress's purchases of enrichment services during the
6 review period decreased 15 percent, to \$79.43 per
7 Separative Work Unit. The delivered costs for fabrication
8 and conversion services have a limited impact on the
9 overall fuel expense rate, given that the dollar amounts
10 for these purchases represent a substantially smaller
11 percentage of Duke Energy Progress's total direct fuel
12 cost relative to uranium concentrates or enrichment.

13 The company anticipates a slight increase in nuclear
14 fuel costs on a cents-per-kilowatt-hour basis through the
15 next billing period. Because fuel is typically expensed
16 over two to three operating cycles – roughly three to six
17 years – Duke Energy Progress's nuclear fuel expense in the
18 upcoming billing period will be determined by the cost of
19 fuel assemblies loaded into the reactors during the review
20 period, as well as prior periods. The company anticipates
21 the average fuel expense to increase from .612 cents per
22 kilowatt-hour, incurred in the review period, to
23 approximately .622 cents per kilowatt-hour in the billing
24 period. This change reflects the discharge of fuel with a
25 lower cost basis from the reactors and its replacement

1 with fuel procured under new contracts negotiated in
2 higher markets.

3 This concludes my testimony summary.

4 MR. WELLBORN_[via audio/videoconference]: Thank you, Mr.
5 Houston.
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23 [PURSUANT TO PREVIOUS INSTRUCTION, THE
24 PREFILED AMENDED DIRECT TESTIMONY OF KEVIN Y.
25 HOUSTON FOLLOWS IMMEDIATELY HEREINAFTER]

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Aaron L. Rothschild my business address is 15 Lake Road, Ridgefield, CT.

3 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS**
4 **PROCEEDING?**

5 **A.** Yes. My Direct Testimony was presented on behalf of the South Carolina Department of
6 Consumer Affairs ("Consumer Advocate") on January 23, 2020.

7 **I. SUMMARY OF MR. D'ASCENDIS' COMMENTS**
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9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 **A.** The purpose of my Surrebuttal Testimony is to respond to the following issues addressed
11 in Company witness Paul Dylan D'Ascendis' Rebuttal Testimony:

12 **II. Definition of the Cost of Equity**

13 **III. Application of DCF Model**

14 **IV. Application of CAPM**

15 **V. Current Market Environment**

16 **VI. Adjustments to Cost of Common Equity**

17 **VII. Non-Price Regulated Proxy Group**

18 As addressed below, Mr. D'Ascendis' criticisms are invalid and should be rejected.
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Q. PLEASE COMMENT ON MR. D'ASCENDIS' CLAIM THAT YOUR DCF METHOD IS FLAWED BECAUSE IT IS CIRCULAR.

A. Mr. D'Ascendis claims that my DCF method is circular because the result (if authorized) would become one of the model inputs.² His claim is false because, among other reasons, my DCF results are based on companies in other jurisdictions. If authorized, my DCF results would not be applied to the companies in my Water Proxy Group. There is no circularity. Additionally, my DCF results are based on a point in time (December 31, 2019) and therefore if allowed, my DCF results could not impact investor expectations ~~back in May~~ without a time machine.

Q. PLEASE COMMENT ON MR. D'ASCENDIS' CLAIM THAT YOUR DCF METHOD IGNORES THE BASIC PRINCIPLES OF RATE BASE / RATE OF RETURN REGULATION.

A. Mr. D'Ascendis' position is without sound foundation. My approach to estimating an appropriate cost of equity for BGWC does recognize that it will be applied to book value. Applying a market-based cost of equity to book value is consistent with the regulatory principles of original cost ratemaking. Applying a market-based cost of equity to anything other than the original cost of BGWC's investments as measured by book value would violate fundamental principles of original cost ratemaking and result in overcharging consumers.

² Mr. D'Ascendis' Rebuttal Testimony, page 55, lines 3-15.

**ERRATA SHEET OF
DANIEL P. HUNNELL II
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-281-S
IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR ADJUSTMENT
(INCREASE) OF RATES AND CHARGES, TERMS AND CONDITIONS, FOR SEWER
SERVICE PROVIDED TO CUSTOMERS IN ITS RICHLAND AND KERSHAW
COUNTY SERVICE AREAS**

The following changes are made to my pre-filed revised direct testimony, which was filed on June 5, 2020. An unredacted copy of my revised direct testimony was submitted under seal on June 18, 2020.

Revised Direct Testimony

- Page 16 of 26, line 23: Please add the word "Amended" before "Application" and strike the word "Exhibit A."
- Page 17 of 26, line 1: Please strike the words "page 6 of 6" and replace with "page 7"
- Page 17 of 26, line 3-4: Please strike the words "The Company should be required to file a corrected Application Exhibit A to reflect the correct Commission regulation."
- Page 21 of 26, line 21: Please strike the word "Rule" and replace with "Instruction."
- Page 24 of 26, line 6: Please strike the amount "\$2,001,430" and replace with "\$2,032,146."
- Page 24 of 26, line 16: Please strike the amount "\$2,001,430" and replace with "\$2,032,146."

Page 24 of 26, line 22: Please strike the amount “(\$2,001,430)” and replace with
“(\$2,032,146).”

Page 25 of 26, line 12: Please strike the amount “(\$1.62)” and replace with “(\$1.65).”

Page 25 of 26, line 12: Please strike the calculation “(\$2,001,430 / 34,290 ERCs / 36 months)”
and replace with “(\$2,032,146 / 34,290 ERCs / 36 months).”